SOUTH CAROLINA INFRASTRUCTURE STUDY

— REPORT #3 —

REVENUE AND FINANCING ALTERNATIVES FOR INFRASTRUCTURE DEVELOPMENT

STATE OF SOUTH CAROLINA
STATE BUDGET AND CONTROL BOARD
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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12 NOVEMBER 1996

DRAFT: NOT FOR QUOTATION OR ATTRIBUTION

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INTRODUCTION

The South Carolina Commission on Intergovernmental Relations (SCACIR) has commissioned a study on infrastructure needs and costs in the state. The report which follows presents a menu of county and local revenues to begin to address these infrastructure needs.

The report begins with a discussion of the issues surrounding capital funding revenue raising and the two basic types of approaches to raising these revenues. These are "pay as you go" out of *local revenues* or *debt financing* of a variety of types. Within these, two basic revenues are presented that: (1) currently exist in the state, and those that have (2) more or (3) less likelihood of being authorized by the state for local use. The latter two categories reflect a combination of both the conservative nature of the state in authorizing local revenues and the risk associated with, or political acceptability of, implementing certain types of revenues.

The menu included here can be added to or deleted from, and categories shifted, if like revenues already exist within the state. The purpose of this report is to present a variety of revenue alternatives that potentially can augment existing revenues given the scale of infrastructure need. These can then become part of the deliberations regarding an overall implementation strategy to address infrastructure need.

THE CHALLENGE OF INFRASTRUCTURE FINANCE

Overview

The current condition of infrastructure is defined by the availability of revenues to fund construction and replacement of needed facilities. In the post-World War II environment a substantial amount of infrastructure was financed with federal and state grants-in-aid in the form of highway funds, sewer and water construction grants, general revenue sharing, and dedicated funding, such as community, block grant funds. For a variety of reasons, those funds have been declining for more than a decade and, increasingly, the cost of infrastructure has become a local government financing obligation. While there will continue to be federal and state funding for infrastructure, most experts agree that such funds will be far less than the amounts needed to provide new and replacement facilities necessary to meet a community's needs.

The infrastructure finance problem is compounded by the fact that many of the facilities financed by federal and state grants-in-aid are nearing the end of their useful lives and are in need of renovation or replacement. Thus, not only do local governments need to fund existing facilities' deficiencies and facilities' needs for new growth and development, but they must also fund replacement costs—all at the same time, and in an environment of increasing revenue constraints.

Meeting the challenge of infrastructure finance is complicated by a number of factors. One of the most problematic of these factors is the long-standing public perception that infrastructure is free and that adequate public facilities are a right. These

perceptions took hold because the link between facilities and funding was so indirect that it "appeared" that others—usually the federal government—paid for required facilities. In fact, for many years those facilities were, by and large, available when needed. The reality, however, is that there is no "free lunch," and as state and federal funding has declined, local governments have become increasingly challenged to meet infrastructure needs. During the 1980s many communities in the United States attempted to meet anticipated infrastructure financing shortfalls by imposing development exactions or taxes on new growth and development. Development exactions were popular because they were responsive to anti-growth/anti-developer sentiments and were politically expedient. However, as the cost of facilities and housing continues to escalate, these communities are realizing that there is a limit on the ability of the general population to withstand exactions. In some California cities, the total amount of exactions collected per dwelling unit exceeds $25,000.

Another factor complicating infrastructure finance is the fact that the cost of facilities continues to escalate, at least in part because of the predominant sprawling pattern of development. The classic American infrastructure model is that an area is developed with two-lane roads. Later, as the farms outward are developed, traffic congestion on the two-lane road becomes intolerable, and the road must be improved. The first step is to improve the intersections to relieve pressure points until the road is widened. Then, when the pressure for improvement overcomes the inertia of inaction, the intersection improvements are consumed in a road-widening project that is nominally very expensive because of high right-of-way costs in developed areas.

Further, infrastructure is often held hostage to the growth management debate as no growth or slow growth interests argue that infrastructure begets or accelerates growth. While it is undoubtedly true that infrastructure can stimulate the location and magnitude of growth, infrastructure is a relatively crude tool in terms of limiting growth.[1] Indeed, experience around the country demonstrates that, more often than not, infrastructure decisions based on limiting growth have little impact on the rate or intensity of growth and often result in precipitous declines in levels of service and quality of life. On the other hand, the provision of infrastructure can be a powerful tool in terms of "guiding" development to locations where growth is most appropriate.

Infrastructure finance is impacted by guilt-by-association—a victim of anti-tax, anti-government sentiments. Although there are inefficiencies in public infrastructure projects, infrastructure is an area in which government has proven itself most effective. Nevertheless, additional funding for infrastructure means more taxes (or whatever label is attached), and even modest efforts to raise additional funds for infrastructure are frequently "tarred" by anti-tax groups.

Finally, the relationship between land use and infrastructure has been too-long ignored. Every decision a local government makes in terms of land use has infrastructure implications. Nevertheless, most decisions are made in a vacuum with little or no understanding of cumulative effects and the necessary and incipient infrastructure

[1] This is in part due to the fact that the vast majority of growth *in a region*—in excess of 80%—is driven by national and regional economic forces that are beyond the control of local growth management programs.

commitments that attend land use decisions. This phenomenon is complicated by the tendency of local government to finance future needs on the basis of new revenues derived from growth. When the community is rapidly growing, income generally exceeds demand (in part because the service needs of new growth and development take place in locations where adequate capacity is available for initial phases). However, as the community matures, revenue accounts begin to balance out, and inevitably the slowdown in the growth of revenues and the aging of infrastructure catches up with the community—usually just as community tolerance of traffic congestion expires.

Education

At the heart of the challenge of infrastructure finance are a lack of general understanding regarding the relationship between the availability of infrastructure and a community's quality of life and practically *no* understanding of the cost of infrastructure and the sources of revenue on which infrastructure depends. A key element of a successful infrastructure finance program is educating the public and its appointed, employed, and elected officials about the nature of infrastructure and the cost of maintaining and improving it.

Unfortunately, infrastructure is not a particularly exciting subject to the average citizen. Except for those occasions when the sewer or street backs up or when water pressure drops, infrastructure is one of those unexciting topics to which someone else should pay attention. As a result, it is unlikely that the medium of the moment—the TV sound bite—will play a significant role in a successful education program. Other media, such as brochures and pamphlets, are more likely to be the foundation of a successful infrastructure education program.

The unfortunate fact is that the entire spectrum of players in the land use "game" need to be educated about the relationship of infrastructure and quality of life and the realities of infrastructure finance.

First and foremost, the general public must be educated if it is expected to support significant infrastructure initiatives. The history of infrastructure finance initiatives around the country is that they do not succeed unless the public understands the nature of the facilities' supply and demand relationship. It is easy to blame growth for traffic congestion; however, as discussed above, traffic congestion is the result of a whole host of forces, including increased travel by existing residents. The difficulty is that the general public has little interest in infrastructure matters except when fees or taxes are increased or when the level of service declines to a point that is unacceptable. At that point, the public is in no mood to be educated.

What it takes is a deliberate program of educational building blocks. These begin with simple concepts—for example, waste stream separation as a way of improving the cost effectiveness of solid waste disposal, then moving on to the more complex interrelationships that control traffic congestion. Many aspects of traffic movement are counter-intuitive and can be "brought home" only in the abstract. For example, the general public assumes that all additional development will result in more traffic. In reality, a new service use that serves an existing residential population from a more convenient location actually reduces traffic congestion. It takes time and

deliberation to debunk the myths of infrastructure, and it requires that school-age children, their parents, and *all* segments of the community be exposed to the basic concepts that underlie the infrastructure equation. To the extent that local media—print or television—can be induced to address the infrastructure issue, a newspaper series on infrastructure and quality of life could be very effective, as could a local documentary that compared qualities of life in communities with effective infrastructure planning and finance programs and those that lack such programs.

The education of the general public is also the first step in the education of its elected officials. Experience shows that it takes more than an enlightened public to achieve infrastructure finance objectives. Elected and appointed officials also need to be educated so that they can winnow through the "heat" of infrastructure and land use debates and focus on the difficult choices that confront them. Brochures, pamphlets, and guides to infrastructure needs and finance are all useful tools that can be used to educate elected officials about the direct and indirect effects of public policy decision making. Symposia are another effective means of educating elected and appointed officials. Elected and appointed officials find comfort in the experience of others with similar obligations and responsibilities, and symposia are a meaningful opportunity for that kind of exchange. Moreover, symposia present a non-adversarial venue for elected and appointed officials to interact with their staff and constituents outside of the context of a particular issue or conflict.

Finally, it is important that local government staff have access to meaningful information about the infrastructure/quality of life paradigm. Professional staff have little time and even less capacity to collect information about other programs and experience regarding infrastructure finance. Ongoing duties make it difficult to focus on more global issues like new initiatives and programs. One way of assisting staff in this regard is to include them in the educational program—both as beneficiaries and as participants. One of the most effective educational experiences is actual involvement in teaching others. Involving professional staff in public presentations as a part of a speakers bureau or as symposia attendees are ideal opportunities for ensuring that all participants in the process are educated.

LONG-RANGE CAPITAL FACILITIES FINANCING STEPS

The importance of both short- and long-term capital facilities planning and financing on the overall economic health and quality of life of the State of South Carolina cannot be overemphasized. It is essential to both the fiscal integrity of the state and the character and quality of future development that a comprehensive effort be undertaken to identify future capital needs and to plan for these needs.

Capital facilities planning involves the identification of needed improvements along with a short- and long-term plan for financing those improvements. Ideally, capital facilities planning results in the adoption of a capital improvement program ("CIP") that provides a framework for decision making. Such a plan would address the spectrum of land use issues, including how and where growth will occur and who will pay for the infrastructure necessary to serve new development the CIP must balance the demands created by entering developments against the impacts, demands,

and deficiencies resulting from existing development.

Taken separately, programming for capital facilities and financing capital improvements are important but somewhat academic exercises. Communities can plan for yet not be able to fund their plans, at which point the plans become unrealized. Viewed together, however, the two separate exercises assume new meaning, as the key is the interrelationship of long-range capital facilities planning and long-range capital facilities financing. By considering these two components as part of one effort, the built environment stands a much greater chance of being well managed in a confident arena of decision making.

Planning for Capital Facilities

Capital facilities is the skeleton from which the built environment emerges. It is important that the community know what its skeleton looks like currently and how it is to develop. In an era of government fiscal responsibility, it is up to the communities to operate in an efficient manner, much like a CEO would run a business. A business surely would have a capital planning component included in its strategic plan. The current operations equipment would be well documented, as would future plans for expansion. The business would plan for replacement equipment as well as for the type of new equipment that would allow for expansion. Financing provision for the replacement and acquisition of new equipment would not be left to chance; a well-run business would have a plan in place for careful allocation of its capital. Long-range capital facilities planning in the public context, like long-range capital planning in the business context, is a process for informed and cost-effective decision making.

This kind of careful current assessment of infrastructure in a community and projections of development allow the community to respond in terms of financial resources and directions for growth. By segmenting the capital needs into three general tiers—current, near-term, and long-range—priorities begin to take shape. Admittedly, the more distant the forecast, the less reliable it is likely to be. Nevertheless, for planning purposes, such projections provide a reference point at the very least, for various development and funding scenarios. The critical point is that if annual decisions are made without a long-range plan, money inevitably will be diverted to the issue or crisis of the moment. Long-range capital facilities planning and corresponding budgeting can avoid these crises.

The advantages of a long-range capital improvement planning effort include the following points:

- First, it creates a more predictable environment for public and private investment and avoids the creation of unrealistic expectations about the timing of development and level of service for needed facilities. If the private sector understands when facilities will be available to serve a

particular area, the risk inherent in private-sector investment decisions in those areas and disappointments can be reduced if not avoided.

- Second, a long-range capital improvements planning and financing program ensures discipline in public-sector decisions. Each year, elected officials are challenged to allocate scarce financial revenues to competing interests. In the absence of a long-range capital improvements planning and financing program, there is a natural tendency to make budget decisions on the basis of the political pressure of the moment, with the result that less pressing but equally important improvements are unmet.

- Third, infrastructure is provided to existing and planned future development in a manner that makes sense from not only a planning perspective but from a fiscal perspective as well. Too often, communities have done the exact opposite: allowing additional development to occur and building needed public facilities thereafter. Such a practice has proven wasteful—sometimes ruinous—from a financing viewpoint and, from a planning perspective, has contributed to urban sprawl.

Unlike business planning, local government generally does not have to engage in competition with other local governments. Therefore, it has the advantage of being able to share and cooperate with neighboring communities. Infrastructure planning should be approached on a regional basis. Roadways do not stop at the county boundaries, nor do sewer lines. With a regional emphasis placed on the infrastructure planning effort, more efficiency in terms of economies of scale can be achieved.

Three basic components should be incorporated in long-range capital facilities planning: 1. establishing a plan for infrastructure that needs to be installed or updated and a time frame for its implementation; 2. administering the process in the context of evolving circumstances; and 3. monitoring the progress of the plan and adapting the program to future conditions.
Taken one at a time, these three components become part of the region's basic planning process.
First, identification of infrastructure needs should be broken down by category: public works (sewer, water, roadways, bridges), utilities, parks and recreation, public transit, airport, schools, and libraries, for example. What the region currently has in terms of infrastructure and where it is going in terms of growth are the entries to this equation. Think of this as a spreadsheet, with infrastructure needs listed in rows along the

left side, and columns along the top describing cost, financing plan, implementation schedule, and where each project sits priority-wise relative to the other capital improvement projects.

Second, the effort should not be limited to generating one plan with various infrastructure needs. With a carefully constructed capital improvements plan as the original goal, the state and its inclusive regions must be able to respond to unforeseen changes. Plans should be used as guides, not contracts. For example, if a sewer main were to break and require replacement, even though it was not scheduled for replacement until five years later, the infrastructure plan must be flexible enough to adjust. Funding must be diverted from a scheduled improvement to respond to this urgent need.

Third, the effort must include annual reviews that analyze the demand placed on existing services and the capacity of these services to meet need. These reviews must consider development actually approved versus projected development and adjust the projection for future capital facility needs accordingly.

Financing Capital Facilities

Long-range capital facilities planning can maximize savings locally and within the region. With local budgets stretched thin, this savings is tantamount to garnering additional revenues without a concomitant tax increase. By planning ahead, local governments will save real dollars. For example, a two-lane road constructed this year, followed by construction of turning lanes on that same road three years hence, costs the community additional money. Even accounting for the time value of money in paying for the construction of those turning lanes three years ahead of time, the local government will experience a savings at the end of those three years if it installs the two-lane road with turning lanes at the same time.

Compare this example to buying a child a pair of shoes "with a little extra room in the toes for growth" to avoid buying a second pair of shoes six months later. Communities should plan ahead for anticipated growth to save money on anticipated infrastructure projects. The advantages of a long-range capital financing program are evident in an era of careful fiscal responsibility, as discussed below:

- First, debt financing, which is done through bond issuance, allows a community to be able to spend currently and spread out the repayment for the cost of an improvement over successive generations of service users or beneficiaries. This financing technique reduces the demand on the current cash flow of the local government and allocates the cost to those who will be using the infrastructure after it is built or replaced. Furthermore, if the economy expands or per capita income increases, the cost to the individual taxpayer is less burdensome than full payment at the time of construction.

- Second, there are economies of scale that can be realized in the context of a long-range capital improvements plan and schedule. All too often, a particular improvement requires an expansion that ends up costing more money than if it had been constructed in its entirety at the outset.

- Third, avoiding crisis expenditures by good, sound, long-range planning can only result in the realization of saving money. For example, having an emergency fund in place to address unforeseen expenses enables a community to avoid borrowing at premium rates when an emergency arises. Furthermore, with a long-range plan in place, the community has a better sense of when infrastructure will no longer be functional; thus, before an emergency arises, the infrastructure can be repaired or replaced.

The local jurisdiction must factor in the amount of time necessary to plan, fund, design, and construct the projected public facilities, in conjunction with a particular development being built. Typically, such planning takes place within the strictures of a 5-year near-term plan where the plan is adopted in year 1; funding is identified in year 2; the public facility is designed in year 3; and the facility is actually built in year 4.

Once infrastructure needs have been identified and a time frame for their completion formulated, the local jurisdiction should examine the various funding mechanisms available to pay for these facilities. Accompanying this analysis should be a calculation of the source and proportion of demand from existing development, new and projected development, and other factors, such as environmental regulations that make the provision of public services more expensive and should likely be shared by the citizenry at large.

The advantages of a long-range capital financing program are evident in an era of careful fiscal responsibility. First, decisions regarding incurring debt require a long-range perspective because of the length of repayment periods. What may seem like a beneficial decision to meet an immediate need may not be justifiable in the face of long-term revenue demands to meet overall, and perhaps more important, capital improvement needs.

Second, public support for revenue raising is enhanced by a regularized approach to capital facilities needs. Experience shows that community support for revenue increases is linked directly to perceived confidence about the benefits that will be forthcoming if additional revenues are made available. The more clearly the benefits of a proposed program of public investment are communicated to the public, the more likely the public will support their funding. In addition, an established schedule of improvements makes it easier for residents in one area to understand that monies are being committed in other parts of the community now, and that their area will be in line for future funding.

Finally, there are innumerable cases where stepping back and looking at the entirety of what has to be done is much more resource-efficient than approaching this incrementally. This is particularly true with regard to road building, where expansions soon after the road has been completed require whole new intersection alignments that, had they been done at the time of original construction, would have been half the cost.

In devising a comprehensive capital facilities plan, care must be taken to identify the source of the demand and possible sources of funds—the proverbial question of "Who should pay?" Although the public perception and opinion are frequently that local governments should pay for necessary capital facilities and public services, the reality is that citizens themselves foot the bill one way or another.

After various financing sources are identified, the local jurisdiction should adopt present (for the next two years), near-term (for the next five years), and long-term (for the next 20 years) financing documents to fund the improvements. Each financing plan should have a section consisting of an annual budget. This annual budget section will provide policymakers with an accessible reference point for funding coordination.

Priorities should be set that identify the most critical projects and allocate the funds most readily available. At least biennially, the long-term financing plan should be reviewed and adjusted as necessary to account for development that has actually been approved by the local jurisdiction versus the development projected, and planned for through the CIP, in the comprehensive plan.

The Use of General Revenues

General revenues consist of money available to the local governments from taxation. This taxation can be in the form of property tax, income tax, or sales tax. Once collected, the general revenue represents "money in the bank" to the local governments. There is no borrowing or creative finance involved with general revenue. Consequently, expenditure of the general revenue is made at the discretion of the local government officials. How local government officials choose to spend the general revenue becomes critical in terms of capital facility planning.

Once a community has reached decision points in terms of capital facilities master planning and a financing schedule, the issue becomes one of adherence to such a plan. The community must be willing to forego immediate gratification in return for a desirable end result. This desirable end result is simple, as it translates into dollars saved. For example, the community must be diligent and expend the money in accordance with the CIP. The temptation to forego installation of those turning lanes in return for additional resources to allocate to an alternative expenditure must be resisted.

The goal is disciplined adherence to a long-range CIP. However, this is not always completely realistic. For example, should the community be faced with an unforeseen development opportunity that comports with the policies but not the specifics of its comprehensive plan, the community should not be so inflexible as to turn away such an opportunity. Rather, the community should be able to adjust its existing CIP to accommodate change. Priorities should be set within each category of the CIP that identify the most critical projects and allot

the funds most readily available. This continuum of priorities is essential because it will be the insurance that the highest priority projects remain on schedule if the unforeseen development opportunity jostles the planned queue. Knowing ahead of time what it will more readily postpone versus what it absolutely will not give up in terms of capital improvements affords the community an opportunity to plan in a way that responding to a capital funding crisis does not.

The Use of Debt Financing

One of the problems confronting long-range capital facilities planning and programming is the reality that annual revenues are subject to periodic increases and decreases that relate to national and regional economic cycles. When times are good, funds are available for infrastructure improvements needed to serve new growth and development—a circumstance that takes advantage of the economy. On the other hand, when the economy turns down, revenues decrease and the allocation of limited financial resources to long-range capital needs becomes more difficult. The trouble is that if funding is allocated only to current budget items as opposed to long-term capital needs, a level-of-service dilemma arises when the economy begins to grow and the needed infrastructure is not available. Some communities address this aspect of capital facilities financing by dedicating a set percentage of their annual revenues to capital improvements each year, no matter what the exigencies are. In fact, there are local governments where a set percentage for capital facilities is established in the community's charter.

This is not to say that long-range capital facilities needs should necessarily take precedence over annual budget needs. Rather, decisions to divert programmed funding from long-range programs to short-term needs should be disciplined to ensure that decision makers understand the future implications of their actions.

Long-term capital facilities planning and financing requires the strategic use of debt in order to ensure that required facilities are available when needed despite insufficient cash flow. If all available funds are annually budgeted for current needs, it is unlikely that long-term needs will ever be funded. Indeed, it is probable that there will always be a full menu of "immediate" needs, each with a constituency in support of immediate funding. On the other hand, not all future cash flow should be committed to debt, so that some revenues will be available for current and unanticipated future needs.

There are no magic formulae for allocating anticipated revenue to debt versus current budget. To a certain extent, legal and market limits will dictate the amount of debt that a particular unit of government can undertake; however, the real controls are a long-range capital facilities plan and a long-term capital facilities financing plan that depicts the relative needs of short-, mid-, and long-term needs.

Selected Use of User Fees

User fees are one of the most equitable forms of capital facilities financing: those who use pay a fee according to the quantum of use. Toll roads are a simple example of the "user pay" equation: each time a driver uses a toll road, the user pays a toll that is used, at least in part, to repay debt incurred to construct the toll road. The principal shortcomings of user fees are the administrative and convenience costs

appurtenant to collection of the fees and the potentially disproportionate impact of user fees on the economically disadvantaged.

As federal and state grants-in-aid declined and as other demands on general revenues increased during the 1980s, states and local governments increasingly turned to user fees to finance public improvements. The user fee calculus, however, involves something more than another source of revenue. The quantitative element of user fees promotes conservative behavior. For example, if solid waste service is financed on a general revenue basis, the individual user has no direct financial incentive to cooperate in waste stream reduction measures. If, on the other hand, solid waste service is financed on a per unit of waste charge, the individual user has a very direct and immediate reason to practice waste stream reduction—lower costs.

User fees are collected in a variety of ways. Lexington Fayette Urban County in Kentucky, for example, collects a sewer user fee by way of monthly bills for services based on assumed volumes of discharges. Tolls are collected on roads in the form of payments to automatic or manual toll collectors or, increasingly, by electronic readers. Some user fees are very simple—collection of solid waste only in authorized containers that are purchased from the service provider.

The range of services that can be financed with a user fee is limited in several ways. For example, most state constitutions—including South Carolina—create a right to free and uniform schools. These provisions have been routinely interpreted to prohibit tuition or other "access fees." It is possible in some states to finance special extra-curricular programs with user fees, though the courts have been very cautious about the equal protection implications of these sorts of programs. The other primary limitation on the user fees is the administrative and convenience costs imposed by user fee programs. In some communities, for example, the inconvenience of periodic toll booths has proven to be an immutable obstacle to user fees for roads. This perspective is undoubtedly infected with constituent frustration with perceptions of the growing cost of government and diminishing levels of service:— "why should we have to pay for what we have always gotten free?" In other circumstances, the user fee involves complex data management problems—identifying users, the quantum of their use, and the cost of billing and collection. Some local governments, for example, have had difficulty collecting emergency medical service user fees. When the emergency arises, the focus is only on providing a timely and competent response. After the emergency is over, identification of who placed the call, issues of risk, and collection of the fee have proven problematic and inefficient for some service providers.

User fees are currently used in the region for a variety of services including water, sewer, and solid waste. In addition, user fees are sometimes collected for recreational facilities like municipal golf courses.

The Building of Public/Private Partnerships

The timely provision of required public facilities is a complicated process that requires the public sector to anticipate national and regional economic trends, to match those trends to local development trends and entrepreneurial initiatives, and to raise the necessary funding to ensure that adequate public facilities are available when needed to serve new growth and

development. The challenge is to maintain alignment with facilities demand and facilities capacity in the face of a post-World War II tradition of capacity lagging far behind demand.

In some areas of the country, this complicated process is managed through adequate public facilities regulations. These programs involve the regulation of the timing of development and, in effect, force development to wait until public facilities are available. The "timing and sequencing" approach to managing the growth and development of a community begins from the premise that the community wishes to accommodate expected future growth, rather than to block it, but wishes to ensure that the timing and sequencing of new development are coordinated with the provision of adequate capital facilities and services to serve and support that new development.[2] "Timing and sequencing" recognizes and draws on the inexorable link and interdependency between private development and public facilities and services. The growth and development of a community depend heavily on the government to provide a range of capital facilities and services (roads, water supply, wastewater treatment, schools, and so on). Indeed, government decisions to build capital improvements have always played an important role in opening new lands to development and thus guiding the patterns of development. Accordingly, government decisions about the nature and location of public facilities and services can play a strong role in guiding development to particular locations. On the other hand, government infrastructure decisions are often responsive to private development patterns, with the decision to open new lands to development coming from the private sector, with an expectation that the government will step in to provide or extend the necessary facilities and services into the area.

However, the pace and amount of growth in the community may be so high or the amount of available funding so low that the community cannot keep up with the increased demand on public services by expanding the facilities to maintain an acceptable level of service for the community's residents. As a result, new growth and development can cause the quality of public facilities and services to deteriorate, even to the point of creating unsafe conditions in the community (such as when wastewater treatment facilities are overburdened). In order to avoid such problems, the community needs to ensure that the pace and pattern of public facility expansion can keep up with — and even guide — the pace and pattern of new development.

One of the most common forms of public private partnerships is a concept that is sometimes referred to as "front-ending" agreements. Under this concept, the local government establishes a long-range capital facilities plan that schedules improvements based on anticipated growth trends and available financial resources. If infrastructure to serve a particular property is not scheduled for installation in the near future, the property owner has three alternatives: 1. wait until the needed infrastructure is installed according to the long range capital facilities plan; 2. persuade the local government to amend the long range capital facilities plan to give the

[2] "Timing and sequencing" is an alternative to "freezing" or "capping" new development (by downzoning or other means) in response to the strains that new development may place on the carrying capacity of the community's capital facilities and services systems.

needed infrastructure priority; or 3. agree to install the infrastructure at his or her own expense, with an understanding that he or she will be reimbursed when funding becomes available under the long-range capital facilities plan. In some parts of the country, property owners get together and form "infrastructure clubs" through which they assume responsibility for constructing the infrastructure that is required to serve the area in which their property is located.

At the other end of the spectrum of public-private partnerships is the privatization of infrastructure, whereby the public component of the partnership is limited to establishing level-of-service standards under which private operators provide service on a for-profit basis. Water and electricity are currently provided in the Bluegrass region of Kentucky on a private basis, subject to regulations imposed by local and state governments. In other parts of the country, sanitary sewer service, solid waste management, and — in some limited circumstances — roads are provided by private operators under franchise agreements with a local government.

The essence of the public-private partnership is maximizing the economic potential of both the public and private sectors. For example, it is a simple fact that the public sector has the ability to borrow money on more favorable terms than does the private sector. Indeed, the total additional cost of private financing over public financing for a $30 million improvement financed with 15-year bonds is on the order of $13.5 million.

On the other hand, the private sector has significant advantages in terms of competitive bidding and economies of scale in constructing improvements. For example, if a major arterial passes through a large parcel of land that is proposed for development, it is very likely that bidding the construction of the arterial along with the local improvements required for the development of the parcel will result in overall savings as bidders look at the project as a whole. And it is not just that the bidding process can be more effective: there are economies of scale that can be realized. as only one contractor incurs mobilization costs as opposed to multiple contractors. Similarly, the amount of "cutting and patching" which is required to meld separate public and private construction activities can be reduced where infrastructure is provided by a single contractor team.

Finally, public-private partnerships can be an effective means of promoting more efficient patterns of development. One of the most problematic aspects of real estate development is uncertainty—uncertainty in terms of development approval, availability of infrastructure, and the market. One of the benefits of a partnership approach to planning and development is that much of the uncertainty of development approval and infrastructure can be eliminated. Correspondingly, a reduction in the risk of uncertainty increases the ability of the private sector to innovate in terms of the development forms and housing types to promote more compact and efficient patterns of development.

LOCAL REVENUE RAISING AND FINANCING MECHANISMS

One of the most common complaints from local officials is that when the 1975 *Local Government Act*, or *Home Rule Act*, became statute it provided structural home rule for local governments but did not address the issue of fiscal home rule. The Act gave localities forms, or structures, of government

to select for self-governing but it did not broaden the ability of cities and counties to *raise revenue*. In other words, cities and counties can do practically anything necessary as far as determining what services they want to provide, but they have little latitude in deciding how they wish to pay for those services. This translates into a long-term dependence on the property tax as the local revenue mainstay.

South Carolina's cities and counties are very much dependent on the property tax as the major general fund revenue source. In fiscal year 1992, the property tax generated approximately 49.7 percent of all *county* general revenue in the state and 67.2 percent of all "own source," or locally generated revenue. Similarly, *municipalities* were dependent on the property tax for 38.6 percent of their general revenue and 47.4 percent of their locally generated revenue.

According to annual polls conducted by the U.S. ACIR, the property tax ranks consistently first or second as the *least popular* tax in the country based on citizen opinion of fairness. Evidence of this public attitude is easily seen in South Carolina as calls for property tax limits and alternatives continue to surface.

In addition to public attitudes regarding the property tax, one must also question the ability of the property tax, or any *single* tax for that matter, to generate sufficient local government revenue on a long-term basis. In 1984, the SCACIR authored the original *Local Government Finance Act* in an attempt to provide cities and counties with general revenue alternatives to the property tax. The Commission operated on the assumption that unprecedented future service demands could not be funded adequately through dependence on a narrow general revenue base. A diversified local tax base was viewed as the best means by which local governments could finance their futures. Most importantly, varying local governments have different needs and preferences. No single alternative revenue option is attractive to all localities in all areas of the state. For this reason, the *Local Government Finance Act* offered a menu of six local option revenue sources. These sources included:

- Local Option Sales Tax
- Local Income Tax
- Local Occupational (payroll)
- Tax Local Admissions Tax
- Motor Vehicle License Tax
- Coin Operated Device Tax

Of these revenue sources, only the Local Option Sales Tax was enacted for use by cities and counties as a general revenue source. This legislation passed during the 1990 General Assembly Session. A state growth policy should offer fiscal options for use by cities and counties to finance their future. Only through the use of a diversified tax mix will the state's fastest-growing communities meet increased service demands. Additional revenue options would also be useful in those areas of the state that are not experiencing substantial growth and must depend on a stagnant or declining property tax base to generate operating revenue. A menu of existing and alternative revenues is discussed below.

I. REVENUE RAISING MECHANISMS

The revenue sources available for new infrastructure at the local level are quite varied, but the diverse sources can, in principle, be placed in a few general

categories. First, *general revenues* in the form of taxes and fees may be used to finance infrastructure. The most common source at the local level is the *property tax*, but other sources of general revenue might also be used. The money may be used to build infrastructure directly or to pay back bonds that are used to finance it. This mechanism can be used by a subset of taxpayers through special assessments. Second, a charge may be levied for a service, such as water provision, and part of the revenue from the charge may be used for infrastructure finance, again either directly or as a revenue source for bond funding. Finally, a charge may be levied based on the anticipated cost of providing new service to development. Typically, such fees are accumulated to provide future capacity expansion rather than used to fund bond measures.

CURRENT TAX AND FEE REVENUE SOURCES

Property Taxes

Jurisdictions Currently Authorized: Cities, counties, school districts, special districts.

Description: The property tax is used by South Carolina cities, counties, schools and special districts primarily to raise revenue to fund the general operations of local government. Property tax administration, governed by the South Carolina Constitution, the state's taxation laws, and regulations of the Department of Treasury, involves the process of assessment, equalization, levy and collection.

Property tax proceeds may be used for any purpose for which the unit of government can lawfully expend funds. Property taxes can help finance infrastructure development, either as:

- a direct funding source for operations and capital projects, or
- a repayment source to pay debt service on municipal bonds, or
- a source of security on General Obligation Bonds retired by another revenue source, such as sewer fees.

As with any local tax source that requires voter approval, the degree to which property taxes are a viable option for funding infrastructure projects is subject to the political and economic climate of the requesting entity.

Obstacles: Property taxes are subject to voter approval. Since property taxes have been heavily utilized by local jurisdictions, there tends to be strong voter resistance to the extension of this tax.

Local property taxes are also increasingly the target of anti-tax forces and are vulnerable to caps and other kinds of voter-initiated limits (*e.g.*, Proposition 13 in California and Amendment 1 to the Colorado Constitution).

Remedies

Jurisdictions should evaluate the potential of other sources of revenue. Cities and counties have some taxing powers; special districts may require legislative authorizations.

Local Option Sales Tax

Jurisdictions Currently Authorized: Cities and counties.

Description: In South Carolina, local option sales taxes can be used to supplement general revenues and thus augment infrastructure finance. A favorable countywide referendum must be conducted before the tax is put into effect. Two-thirds of all revenue generated must be used by local governments to reduce property taxes. Fifteen South Carolina counties currently employ the local option sales tax as a revenue source.

Obstacles: Merchants claim that local option sales taxes drive retail business elsewhere.

Remedies: A small sales tax (1% or less) piggy-backed onto a state sales tax and collected by the state is often unnoticed by local consumers.

Much of the property in the state is exempt from taxation, such as federally owned lands, government owned real property at any level, and land held by churches and charities.

Business License Fee

Jurisdictions Currently Authorized: Cities and counties.

Description: A business license fee can be required of businesses that operate within a municipality. The fee, which is nominal and paid annually, can be applied to both businesses that are physically located within the taxing jurisdiction and enterprises that conduct business within the jurisdiction. It can be used to supplement general revenues, some share of which can purchase facilities directly or pay off bonded debt.

Obstacles: Business license fees are often characterized as anti-business though the amount of most business fees is such that they do not have that effect. In addition, the administrative cost of collection can be problematic unless there are other taxing or collection incidents to which collection of the fee can be appended.

Local Admissions or Amusement Taxes

Jurisdictions Currently Authorized: Cities and counties.

Description: This local income is often not collected on the local level. The state collects an amusement device tax, a share of which (typically 20%) is distributed among counties based on population. Municipalities over a certain population size may also levy an amusement device tax.
Obstacles: Each new tax requires some system of collection. Both the cost and the administration can be burdensome to the jurisdictions. Special local taxes can make the levying jurisdiction less attractive than its neighbors as a place to do business, or simply to live.

ALTERNATIVE TAX AND FEE REVENUES—MORE LIKELIHOOD OF ACCEPTANCE

Hotel/Motel Accommodations Tax

Jurisdictions Potentially Authorized: Cities and counties having hotel/motel accommodations

Description: Numerous municipalities in other states levy some form of a hotel/motel tax (often called transient occupancy tax). The tax is generally levied on the room portion of hotel bills paid by hotel

occupants. Unlike other local taxes, hotel/motel taxes tend to be popular with local citizens since they are generally paid by nonresidents. If a city such as Myrtle Beach has a significant number of hotel and motel facilities, revenues from this source can be significant. Again, they add to general revenues, which pay for capital facilities directly and also pay down bonded debt.

Obstacles: Historically, hotel/motel taxes are used for tourism promotion and not for general purposes. While they are popular with the general public, they are hotly contested by the tourism industry, which does a good job of ascribing anti-competitive effects to such impositions.

Business Income Tax

Jurisdictions Potentially Authorized: Cities and counties.

Description: Counties and cities, upon voter approval, may impose a business income tax on the net income of the business. The mechanics of a business income tax are similar to a business license fee.

Obstacles: A business income tax is generally viewed as anti-business and may have an adverse impact on business recruitment. The economic implications of a business income tax may not be sufficient to constitute a real deterrent, but in the highly competitive world of business recruitment, competitors find it easy to cast a competitor's tax environment in a negative light.

Franchise Taxes or Fees

Jurisdictions Potentially Authorized: Cities and counties.

Description: Franchise taxes or fees are increasingly used to fund local government revenue needs. Cable TV has been a particularly fertile arena for local government revenues.

Obstacles: Almost none if tax rates are low.

Utility Taxes

Jurisdictions Potentially Authorized: Cities and counties.

Description: Utility taxes are a common source of revenue that is used in other states for local general revenue (and thus infrastructure payment) purposes.

Obstacles: To the extent that utility taxes make such facilities less competitive, utility fees may be unpopular with economic development interests. Utility taxes can be particularly problematic for uses with high energy consumers.

ALTERNATIVE TAX AND FEE REVENUES—LESS LIKELIHOOD OF ACCEPTANCE

Local Gasoline Taxes

Jurisdictions Potentially Authorized: Cities and counties.

Description: A county or city-wide gasoline tax would apply to the sale of petroleum products. Proceeds from a local gasoline tax are usually restricted to fund highway and road construction, improvements, and maintenance.

Obstacles: Local option motor fuels taxes have been effective in a number of states;

however, they are difficult to pass at referendum, unless the purpose for the levy is limited and clearly described. In addition, local option gas taxes can have a dislocating effect if they are not imposed uniformly throughout a region. If county A imposes a levy, but county B does not, then there will be some shift in the locus of fuel purchases, as well as the location of transportation-dependent uses, which tend to concentrate in areas with the lowest fuel costs.

Remedies: Specify carefully the purpose of the tax and keep the rate increase as low as possible.

Local Vehicle Registration Fees

Jurisdictions Potentially Authorized: Cities and counties.

Description: Some states permit cities and counties, upon voter approval, to impose a local vehicle registration fee. This fee is added to the vehicle registration fee currently collected by the state. Revenues from this source are restricted to highway and road construction, improvements and maintenance. If a county imposes a local vehicle registration fee, at least 40% of the proceeds must be distributed to cities within that county.

Obstacles: While simultaneously being significant for infrastructure finance, local vehicle registration fees would be regressive for lower-income families. This could be overcome with a sliding registration fee, "x" dollars for the first vehicle per household and 2 or 3 times "x" for additional vehicles, under the assumption that richer households have fewer vehicles.

Remedies: Careful crafting of the registration fee to account for both uniformity and equity of application.

Rental Car Tax

Jurisdictions Authorized: Cities and counties.

Description: Some jurisdictions currently levy a 10% rental car tax on rental car businesses within their jurisdictions.

Obstacles: Each new tax requires some system of collection. Both the cost and the administration can be burdensome to the jurisdictions.
Remedies: Require collecting business to forward revenues to a special account in the municipality or county.

CURRENT SPECIAL ASSESSMENT AND DEVELOPER EXACTION REVENUE SOURCES

Special Assessments

Jurisdictions Currently Authorized: Cities and counties.

Description: To fund and finance infrastructure projects that directly benefit specific properties, South Carolina law allows cities, counties, and special districts to utilize special assessments. Since special assessments are levied on property, they are similar to property taxes. However, unlike property taxes, special assessments are specifically designed to recover part or all of the cost of an improvement that specially benefits an individual property.

Special assessments are not generally used for projects such as sewer or water treatment facilities, or community centers, since the community as a whole benefits from the

project rather than specific property owners. It should be noted, however, that so long as the subject matter of an assessment is authorized, special assessments can be imposed if the benefit received is equal to or greater than the assessment imposed. Special assessments can be levied against properties to fund infrastructure such as:

- streets
- sidewalks
- water and sewer improvements
- neighborhood recreational facilities and equipment

Costs associated with improvements are assessed against properties based on formulas that relate the charge against the parcel of property to the services or benefits received. Formulas are usually based upon frontage, square footage, or a combination of the two. Infrastructure projects financed through special assessments may be structured on a "pay-as-you-go" basis, or special assessment proceeds may be used to pay the debt service on bonds. The decision regarding which financing mechanism to use depends on the type and cost of project and how property owners remit their assessments—either in lump sum or installment payments.

Obstacles: The principal obstacle to the use of special assessments is public resistance to the imposition of assessments on existing properties and the due process implications of the approach. Under most special assessment law, those assessed must have a meaningful opportunity to contest the reasonableness (the relationship between the benefit and the assessment) of a special assessment. In many states, the practicality and usefulness of special assessments are frustrated by individual hearing requirements.

Remedies: Careful attention paid to who is benefiting from the improvement versus who is being assessed.

Developer Exactions

Legal Authorization: Established by local ordinance

Jurisdictions Currently Authorized: Cities and counties.

Description: Established by local ordinance, developer exactions, which are similar to system development charges, are cash or in-kind payments made by real estate developers to a local government to help defray some or all of the added public infrastructure costs resulting from a particular development. Developer exactions differ from impact fees in that they may be negotiated on a project-by-project basis and vary as to the amounts collected, the timing of payment collections, and the uses of funds.

Exactions are most common among smaller communities that lack the sophistication to impose schedules of impact fees or enact other revenue sources. Exactions are also used in combination with SDCs in areas that face rapid growth and the consequent strain on public facilities. Exactions can come in the form of a dedication of land for park facilities and open space, road construction, or construction of sewer and water facilities needed to serve new residential development.

Obstacles: Law requires that exactions be earmarked and maintained in separate accounts for each type of exaction.

The income stream from exactions is uncertain and therefore difficult to predict.

A recent U. S. Supreme Court decision may place a burden on the government to demonstrate rough proportionality in the amount of the exaction in some sort of "individualized determination."

Remedies: Provide statutory or other clarification of "exactions" and their permitted uses.

ALTERNATIVE SPECIAL ASSESSMENT REVENUES—MORE LIKELIHOOD OF ACCEPTANCE

Economic Improvement Districts (EIDs)

Jurisdictions Potentially Authorized: Cities and counties.

Description: Cities and counties in other states are authorized to establish economic improvement districts under state statute. A city may make assessments "upon the lots which are specifically benefited by all or part of the improvement" for the cost of economic development projects such as:

- parking lot improvements
- landscaping of public areas
- business promotional activities

Economic improvement district assessments are often levied for a maximum term (e.g., 5 to 10 years). Levies may not exceed in any one year a percentage of the equalized value of the property within the district (typically 1%). Usually only properties zoned for industrial or commercial uses are assessed; no residential properties are assessed.

Obstacles: Special assessments are applied according to the benefit derived from a project. Therefore, any project that is of general benefit, such as a wastewater treatment plant, cannot utilize special assessments.

Not all assessed parties will accept the assessment.

Not all assessed parties pay their assessment on time or at all. Recessions have a noticeable effect upon the rate of delinquency; strong growth periods cause increases in prepayments. These factors make EIDs a somewhat unreliable revenue source requiring a large reserve or "guaranty" fund (as used in the state of Washington its Special Assessment Bonds).

There has been increasing scrutiny of these kinds of districts from the federal level regarding their use in obtaining tax-free financing for private activities.

Remedies: The law currently limits assessments to the cost of the improvement only. It should be expanded to include the cost of establishing reserves and/or a percentage over the cost to provide greater protection from delinquencies and negative arbitrage (investment loss relative to interest cost). Economic Improvement Districts should be permitted to apply their special assessments to special assessment financing, if so desired. Current law appears to prohibit this.

Tax Increment Financing (Urban Renewal Districts)

Jurisdictions Potentially Authorized: Cities and counties.

Description: Unlike special assessments, which are established to make infrastructure

improvements that benefit specific properties, an urban renewal district is established to remedy "blighted" conditions that may exist within a specified area of a community. State law defines those conditions that constitute "blighted" and establishes an administrative structure known as an urban renewal agency. Tax increment financing can be used for infrastructure needs such as streets and rights-of-way, utilities, property acquisition and development, and housing.

At the time an urban renewal district is created, property tax values within the district are "frozen." As these properties are developed and their assessed value increases, the urban renewal agency keeps the property tax difference, or increment, between the new tax proceeds resulting from the development and the frozen base. The property tax increment revenues can then be used to pay the cost of infrastructure improvements within the district.

Urban renewal areas are often limited to a maximum amount of the assessed valuation within the municipality. In some states, however, general economic development activity is supported by tax increment financing.

Obstacles: Extremely vulnerable to variations in the tax rate, whether natural or imposed by changes in law.

Urban renewal may be unpopular with overlapping districts that believe they are denied taxes that would otherwise be made available to them. Their opposition makes it difficult to establish an urban renewal district.

Most statutes limit tax increment financing to areas that contain slum or are blighted.

The taxing authorities who give up the increment are generally opposed to tax increment financing unless there is otherwise a clear benefit to allowing the diversion of future taxes. This is particularly true when the other taxing authority's obligations increase as a result of the development.

Since these are funded by property tax increments, all of the problems discussed above relating to property taxes apply to these districts with the exception of the voter approval requirement. Although not required, voter approval is still solicited by some jurisdictions, since urban renewal districts are usually referred by petition if not offered to a vote initially.

Remedies: Assure that tax increment financing is utilized only where growth would not occur without public investment.

ALTERNATIVE USER FEE, SERVICE CONTRACT REVENUES—MORE LIKELIHOOD OF ACCEPTANCE

User Fees

Jurisdictions Potentially Authorized: Virtually all municipal corporations, i.e., cities, counties, special districts, ports, and the like.

Description: User fees are another common method of paying for infrastructure improvements such as water, sewer, and storm drainage. System user fees are used to pay the ongoing operating and maintenance cost of a public facility; they also may be used to pay bonded indebtedness for construction and improvements.

Unless a program has been established for some time and has an existing rate-payer base, the cash flow from user fees generally does not permit direct financing of infrastructure projects, except where a portion of the user fee is accumulated over time for future projects. In most cases, accumulation of user fees requires rate increases that are both well beyond immediate cash needs and are politically unpopular. Therefore, a user fee system for large infrastructure projects may support the debt service of a financing resource such as a bond issue (General Obligation or Revenue Bond).

User fees are particularly desirable because they promote conservative behavior due to the direct relationship between the quantum of use and the amount of the fee.

Obstacles: Certain methods of collecting user fees involve a significant amount of user friction. For example, toll roads require periodic interruptions of user movements to collect tolls.

User fees are normally set by a popularly elected body; as a result, they tend to lag behind actual costs because constituents resist any increase in costs — whether taxes or not.

Rates which significantly exceed neighboring rates will decrease competitiveness or make an area less attractive to development. Rate payers resist as rates climb.

Major increases in rates can affect the utilization of the service (e.g. elasticity of demand) and thus not produce as much revenue as expected.

Remedies: Many major capital projects cost more than reasonable rates can deliver, especially in small areas. State assistance may be needed.

Wholesale Service Contracts

Jurisdictions Potentially Authorized: Special districts.

Description: Utilities such as water and sewer that may have excess capacity provide service to other public entities located outside their service area boundaries through wholesale service contracts. These agreements set forth the terms and conditions under which operating and capital costs are allocated to the wholesale customers. Wholesale service contracts are a cost recovery mechanism and can be combined with other funding and financing resources to meet the cash flow requirements for infrastructure construction and operations.

Obstacles: Selling outside may become more lucrative than pooling service within boundaries.

Remedies: Regular monitoring of sales accounts.

ALTERNATIVE IMPACT FEE REVENUES—LESS LIKELIHOOD OF ACCEPTANCE

Impact Fees

Jurisdictions Potentially Authorized: Cities, counties, and certain special districts.

Description: Impact fees are charges assessed against new properties to provide for both current and future infrastructure capacity needs. Impact fees can be used only

to fund capital improvements in connection with water supply treatment and distribution; waste water collection, transmission and disposal; drainage and flood control; transportation; public building construction; and parks and recreation. Impact fees cannot be used for the costs of operations or routine maintenance.

Obstacles: Developers resist paying these fees, which add to their up-front costs. These revenues can vary widely from year to year, which often do not produce sufficient revenue for major projects like treatment plants.

Revenues are not available until growth is already occurring. Impact fees cannot fund major infrastructure in advance of growth.

Remedies: Ensure that fees bear a strong relationship to the cost of the infrastructure that is being provided.

CURRENT INTERGOVERNMENTAL TRANSFER REVENUES

Intergovernmental Transfers

Jurisdictions Authorized: Cities and counties.

Description:

Gasoline Taxes. The state of South Carolina currently collects a 16-cent-per-gallon tax on gasoline, 24.4% of which is currently shared with counties and 15.6% of which is distributed to cities. Additionally, vehicle registration fees collected by the state are also shared with cities and counties under the same distribution formula. These gas tax revenues are required to be spent for highway and road construction, improvements, and maintenance.

Cigarette Taxes. The state currently collects a 28-cent-per-pack tax on cigarettes and tobacco products, and distributes about 15% of the proceeds to cities and counties.

Liquor Taxes. The state also collects taxes on alcohol. The amount of tax imposed varies with the type of beverage. Approximately 45% of state liquor taxes are distributed to cities and counties.

Obstacles: State does not usually want to transfer more even if it collects more.

Remedies: Encourage increases in state collected revenues to be shared with locals.

II. FINANCING MECHANISMS

One of the most critical challenges facing local governments as they strive to meet new growth demands is the *financing* of required capital projects. Assuming a city or county council does identify funding sources for a project, they may then face another major impediment—their debt ceiling. This problem is not critical if a project is one that generates revenue to pay for itself, such as a water system. Rather, debt limitations for local governments in South Carolina pertain to general obligation debt, debt that is backed by the full taxing power of the issuing locality. Projects typically funded by incurring this debt include non-revenue generators such as city halls, county courthouses, and administration buildings.

The local government general obligation debt limitation in South Carolina is the same for cities, counties, and school districts. This

"debt ceiling" is equivalent to 8 percent of the assessed value of the taxable property in the jurisdiction. Any general obligation debt that would exceed the 8 percent limit may only be incurred by a favorable referendum of the voters of a jurisdiction, an action that has become increasingly more difficult to achieve.

In 1989, the SCACIR issued a comprehensive report examining the issue of local government debt and state constraints. The report found that high growth areas—such as the state's urban and major tourism counties— found debt limits burdensome as they attempted to reinvest in community facilities to deal with their present and future growth. Most importantly, the Commission concluded that local government debt levels should be limited, but that the demand for new public facilities required that the present constitutional debt limit, and debt issues in general, be reexamined to determine their impact on infrastructure development.

In examining the present debt limit, the Commission noted that, although localities are heavily reliant on property taxes, only 40 to 45 percent of the average local government budget was funded through the property tax. Cities and counties also rely on business licenses, user fees, and intergovernmental funds to add to their revenue picture. The Commission concluded that for a debt limitation to be meaningful and equitable, it should be imposed on the entire local government's revenue composition, rather than being based solely on property values. The recommendation was adopted to continue to limit local borrowing, but that the limit should be expressed as a percentage of a local government's total operating revenue.

The state's low debt limit has resulted in many local governments electing to use lease-purchase agreements to meet capital needs. These agreements do not count towards their general obligation debt limit. In general, this practice is more costly to localities and taxpayers, as interest rates are higher than for conventional bonds.

DEBT FINANCING

Infrastructure *debt financing is* distinguished *from pay-as-you-go funding* in that, with the former, money is borrowed by issuing debt obligations and then repaid over time.

Tax-Exempt or Taxable?

The municipal bonds described in this section can either be tax-exempt or taxable. The interest on *tax-exempt* municipal bonds is free from federal and state income taxation; therefore, interest rates paid by the municipal issuer are lower than that paid on taxable bonds. This can result in substantial cost savings for local jurisdictions undertaking infrastructure development.

In general, federal law specifies that projects which serve a "public purpose" qualify for the lower-cost tax-exempt financing. Since most local infrastructure projects, such as streets, sewer, water, and schools serve a "public purpose," they qualify for the more appealing tax-exempt option.

There are private activity limitations which are imposed which generally mean that the revenues by which the bonds are repaid must be derived from public sources and, under

some interpretations of federal law, the beneficiary of a particular program must not be controlled by a single entity so that the practical effect of the program is public subsidies to what is otherwise a private undertaking.

The *taxable* bond option exists for an issuer if, for some reason, the infrastructure project under consideration cannot be financed with tax-exempt debt. This is most common where the project is deemed to be "private purpose" under federal arbitrage law and is not an "exempt purpose."

The market for taxable municipal debt has generally been more responsive to large issues and recognized municipal issuers. Moreover, the interest rate on taxable municipal bonds generally ranges from 200 to 300 basis points (2% to 3%) above tax-exempt rates.

CURRENT DEBT FINANCING MECHANISMS

General Obligation Bonds

Jurisdictions Currently Authorized:
Cities, counties, and special service districts.

Description: Commonly used for infrastructure development, General Obligation Bonds (GOs) are a long-term borrowing backed by the "full faith and credit" pledge of the municipality's available general fund revenues and unlimited taxing power. Because these GOs have the unlimited taxing pledge of the municipal issuer, they are also referred to as Unlimited Tax General Obligation Bonds.

There are two primary types of General Obligation Bonds:

GO Bonds *paid solely from property taxes.*

GO Bonds *paid from another revenue source*— such as sewer fees (often called "double barreled" or "self-supporting" GO Bonds) —but provide the general obligation taxing power of the issuer as security if the revenues are not sufficient to retire the bonds.

General Obligation Bonds have been used to fund a variety of infrastructure needs, and have been relied on almost exclusively by small and medium sized issuers lacking a strong revenue base to back Revenue Bonds. The full faith and credit pledge helps to achieve the lowest possible borrowing costs for municipalities.

General Obligation Bonds' advantages include:

- The overall costs to issue are the least of any type of bond.
- The interest cost is the least of any type of bond.
- Property taxes can be levied outside a municipality's operating levy to pay debt service.

Obstacles:

- Voter approval is required.
- General obligation debt which applies to the jurisdiction's debt limit is increased.

Remedies: Effectively communicate the importance of the bond issue to local residents. Keep debt obligations as low as possible.

Limited Tax General Obligation Bonds

Jurisdictions Currently Authorized: Cities, counties, and special districts.

Description: Limited Tax General Obligation Bonds (LTGOs) are the same as Unlimited Tax General Obligation Bonds except that the issuer does not have the legal ability to levy unlimited taxes as a pledge of security. Rather, the bonds are secured by available general fund revenues and whatever existing taxing power a jurisdiction has (such as any unlevied tax base amounts).

LTGOs are perceived to have a higher risk and therefore will carry a higher interest rate than full GOs. The magnitude of this difference in interest rates depends on the financial condition of the issuer.

Obstacles: Even GOs fully supported by revenues which are not "taxes" cannot be issued for other than capital construction and improvements.

Very small or poor jurisdictions may have insufficient debt capacity (derived from statutory debt limitations) for certain types of projects. Utility GOs (such as for water and sewer purposes) are exempted from limitations, but police/fire stations, parks, open space, recreational facilities, libraries, and the like are subject to the limitation.

Remedies: Obtain a legislative or court definition of what is contained in "capital construction and improvements," especially:

- land,
- equipment necessary to the functioning of the facility,
- equipment normally a part of a similar facility,
- easements.

Revenue Bonds

Jurisdictions Currently Authorized: Cities, counties, and special districts.

Description: Revenue Bonds are long-term obligations that are payable solely from a designated source of revenue generated by the project that was financed. No taxing power or general fund pledge is provided as security. Unlike General Obligation Bonds, Revenue Bonds are not subject to a jurisdiction's statutory debt limitation, nor is voter approval required.

The interest rate paid on Revenue Bonds reflects the quality of the revenue stream supporting repayment of the bonds. Revenue Bonds have been used to fund projects such as water, sewer, and storm drainage facilities and improvements, and revenue-producing facilities such as electric facilities.

To enhance the marketability of Revenue Bonds, issuers typically establish debt reserves and agree to maintain rates and charges at levels that are more than sufficient to meet all operating and debt service requirements. Because of the limited security offered to bond holders, Revenue Bonds usually carry a higher rate of interest than that paid on General Obligation Bonds.

Advantages of Revenue Bonds:

- Voter approval is generally not required.
- Property taxes may not be used to pay debt service, nor is there any risk to the general fund of a municipality.

Disadvantages of Revenue Bonds:

- Interest rates can be substantially higher than General Obligation Bonds.
- There is a greater risk of default, which would seriously impair a local government's ability to issue any type of bonds in the future.
- Due to the higher risk, there are many more bond "covenants" and other restrictions on the use of revenues that secure the bonds and on operation of the facility.

Obstacles: Usually the most risky of debt financings and therefore require additional security and costs. These come in the form of:

- Reserve funds,
- Higher interest and issuance costs,
- Rate coverage,
- Covenants, including insurance and limitations on use and sale, and
- Sometimes, security interest or lien on land and facility.

Small municipalities often experience a lack of market receptivity for their Revenue Bond issues without extensive security.

Remedies: Clarify authority for Revenue Bonds for all jurisdictions.

Types of Revenue Bonds

Enterprise Revenue Bonds

Description: This is the standard Revenue Bond, which is secured and paid by an identified revenue stream and is issued under specific statutory authorization.

Special Assessment Bonds

Description: Special Assessment Bonds are secured by assessments made against properties that benefit from local infrastructure improvements. Because Special Assessment Bonds are not secured by a general obligation pledge, they are less marketable than other types of bonds and carry a higher interest rate.

In addition, because of the lack of property tax support, Special Assessment bond interest rates may vary by bond issue, based on the property values that serve to secure the bonds. Significant reserve funds are often required to secure the bonds.

Lease Rental Revenue Bonds

Description: This financing technique involves a jurisdiction leasing a facility from a governmental "authority" that has issued debt for the facility's construction. The annual lease payments from the jurisdiction match the debt service due on the bonds. The lease operates as long as the bonds are outstanding. The jurisdiction may have the option to purchase the facility at any time by paying an amount sufficient to pay the principal and interest on the bonds.

Industrial Development Revenue Bonds

Description: These bonds are issued on behalf of private entities in order to achieve some public purpose, such as pollution control, economic development, etc. Extensive abuse forced Congress to severely restrict the use of this type of bonding.

Short-Term Debt Financing Options

Jurisdictions CurrentlyAuthorized: Cities and counties.

Description: Various types of tax-exempt notes, such as bond anticipation notes (BANs), revenue anticipation notes (RANs), tax anticipation notes (TANs) are issued in anticipation of, and secured by some other financing source. A local government may receive a commitment of state grant funds at a future time and may in turn issue grant anticipation notes (GANs). In periods of market instability, issuing some form of anticipation notes allows an issuer to delay a long-term debt issue until the market climate is more favorable, thereby potentially saving on interest costs.

Obstacles: Short-term borrowing is generally available, but bank rates may be higher than tax-exempt rates if borrowings are excessive during the calendar year.

Remedies: Permit jurisdictions to borrow in the short term, for longer than one year, from other funds of the jurisdiction. For instance, a jurisdiction may have a large utility fund that could provide two year interim financing for a nonutility project at rates comparable to federal taxable rates, thereby saving issuance costs and flexible repayment terms.

ALTERNATIVE DEBT FINANCING MECHANISMS: MORE LIKELIHOOD OF ACCEPTANCE

Tax Increment Bonds

Jurisdictions Potentially Authorized: Cities and counties.

Description: This type of debt security is secured by the growth in property tax revenues that result from urban renewal districts. The bonds can be used to finance infrastructure improvements within an urban renewal district established by a city's or county's urban renewal agency.

The necessary growth in assessed value is not guaranteed. Consequently, tax increment bonds are often riskier than revenue bonds secured by a more dependable revenue stream, and thus require higher interest rates in order to attract investors.

For "**Obstacles and Remedies**" see discussion on Tax Increment Financing (Urban Renewal Districts) earlier in this report.

ALTERNATIVE DEBT FINANCING MECHANISMS: LESS LIKELIHOOD OF ACCEPTANCE

Certificates of Participation (Lease Purchase Bonds)

Jurisdictions Potentially Authorized: Cities, counties, and special districts.

Description: Certificates of Participation (COPs) are a financing technique for facilities, property and equipment which utilizes the leasing power of local governments. Unlike General Obligation Bonds, there is no new tax levy authorized; therefore, there is no voter approval requirement. COPs are also not subject to statutory debt limits.

In general, Certificates of Participation represent "participation" in a tax-exempt lease, which is an agreement between a municipal government and a governmental agency, authority or commercial bank trust department. If a governmental authority is used, the authority performs the initial

financing, and the municipality retires and secures the debt through lease payments. If a commercial bank trust department is used, the municipality performs the initial financing and then assigns the ownership of the facility to the trustee to whom the municipality makes the lease payments. Revenues to pay the COPs can come from a number of sources depending on the type of project financed. For example, COPs issued to finance a community facility or convention center may be paid back from the revenues generated by the facility that are not needed for operations, and special taxes such as hotel/motel taxes or business license fees.

In both cases the local government owns the project financed by the COPs when they are retired, thus the name Lease Purchase Bonds.

Bond counsels have frowned upon COPs as a financing instrument for major distribution infrastructure projects such as for water and sewer systems. Municipal buildings such as city halls, public service buildings, fire or police stations are better suited to COPs because they conform to the leasing concept.

Advantages of Certificates of Participation:

- No voter approval is required.
- General fund revenues that are not otherwise obligated can be used to pay debt service if needed, especially if the projections of special taxes or revenues are overly optimistic. This is at the option of the governing body in charge when the need arises, and therefore is not a legally binding commitment.

Disadvantages of Certificates of Participation:

- A non-appropriation clause is required for the general fund support, which carries an interest rate penalty.
- The overall costs to issue are more than General Obligation Bonds.
- The interest cost is more than General Obligation Bonds.
- The types of infrastructure projects which can be financed with COPs is limited because of the leasing concept.

Obstacles: A security interest is usually provided where possible. The ability to transfer or assign ownership of public property may be unclear or cumbersome.

Since COPs are structured in a similar manner to LTGOs, in that they are often secured by the unrestricted funds of the issuer, they are subject to the same limitations as LTGOs.

Remedies: Legislate authority to enter into long-term leases without voter approval. Clarify ability to transfer ownership as needed for lease purchase purposes. Permit the use of a non-substitution clause where it would further enhance the issue.

Taxable Bonds of Any Type

Jurisdictions Potentially Authorized: Cities, counties, and special districts.

Description: Taxable bonds can be issued for any purpose and be of any type listed earlier. The taxable bond option exists for an issuer if, for some reason, the infrastructure project under consideration cannot be

financed with tax-exempt debt. This is most common where the project is deemed to be "private purpose" under federal arbitrage law and is not an "exempt purpose."

Obstacles: With the loss of the tax exemption on interest, the interest cost is substantially higher.

There is a relatively small market for taxable municipal bonds, especially of a small size.

Remedies: Well secured taxable municipal bonds are an excellent investment opportunity for jurisdictions. The state may have to provide some secondary market assurances to provide the liquidity necessary to trade the bonds prior to maturity, or most bonds will be too long-term for investment.

ALTERNATIVE PRIVATIZATION TECHNIQUES: MORE LIKELIHOOD OF ACCEPTANCE

The term "privatization" is popular within the financial industry but has produced less favorable treatment in Congress, which has severely limited tax-exempt Industrial Development Revenue Bonds and Sale-leasebacks through the recent succession of tax reform acts.

Privatization of debt is a means to enable private taxable persons or corporations to realize tax benefits (investment tax credit, depreciation, business interest tax deductions, etc.) not available to public entities when financing public facilities. Presumably, the tax benefits would be sizable enough to lower the cost to the public body, exceeding the cost benefits of publicly issued tax-exempt financing. However, privatization is more commonly utilized not for cost savings, but for the purpose of:

- avoiding the issuance of debt to finance facilities, even if the cost is greater; or
- sharing risk, especially on technologically or financially riskier enterprises such as a resource recovery or solid waste facility.

Types of Privatization Techniques

True Leases or Vendor Leases

Jurisdictions Potentially Authorized: Cities and counties.

Description: The private enterprise owns the facility and/or equipment and leases it to a public agency. The lease payment is usually set equal to the cost of paying for the facility or equipment plus a pre-determined rate of interest. The amount of the interest rate charged by the private body will be reflective of the riskiness of the project. A tax benefit to the private lessor with a lease arrangement is the depreciation which accrues.

However, these leases are not installment sales contracts (as are Certificates of Participation and Lease Purchase Bonds) and therefore do not have a tax-exempt interest component. If the municipality wishes to purchase the leased asset at the end of the lease, it must pay full market value.

Service or Operating Contract

Jurisdictions Potentially Authorized: Cities and counties.

Description: In a true lease the public agency purchases the right to use a facility over a specified period of time. A service contract with the private entity simply pays the owner to manage and operate the facility. Private owners benefit from a service contract because they may be able to receive sizable tax benefits using Investment Tax Credits and accelerated depreciation.

Where the private entity constructs, owns, and operates a facility leased by a public agency, the contract is usually referred to as "full service."

Obstacles: Higher costs of capital for private entities entail higher costs for jurisdictions.

Remedies: Provide methods by which to lower front-end and/or capital costs for private financier. Some programs include tax abatement, land swaps or lease of public land, special utility or assessment rates, etc. Land swaps or leases may require liberalization of some laws relating to the lease or sale of public property.

ADDITIONAL REVENUE RAISING MECHANISMS TO BE EXPANDED OR CONSIDERED IN SOUTH CAROLINA

TAX OPTIONS—MORE LIKELIHOOD OF ACCEPTANCE

Municipalities across the country have lessened their dependence on property taxes by making greater use of fees and by using other types of taxes. This section focuses on tax options. The three main types of non-property taxes that local governments can adopt are sales, income, and excise taxes.

Sales

Nationally, local option sales taxes are second only to property taxes in the amount of revenue raised for local governments. more than 5,000 cities and 1,200 counties levy a local sales tax, with rates usually between one and three percent. According to the 1992 *Census of Governments*, cities with a sales tax had average property tax rates of only 50 percent of those without a sales tax. Sales tax revenue may be dedicated to special purposes, such as building infrastructure, or go into the general fund. Levying taxes at the county or regional level and distributing a share to cities on a per-capita basis provides for efficient administration and reduces competition for retail activity. Most local sales taxes are collected along with a state sales tax. Although it is currently feasible to use local option sales taxes in South Carolina, few counties or municipalities do so.

Excise

Local excise taxes, or selected sales taxes, are more prevalent than local income taxes. Typical types are utility taxes, hotel-motel taxes, gas taxes, and "sin" taxes. Cities derive the most revenue from utility taxes while counties rely mainly on "sin" taxes. South Carolina's cities and counties use these types of taxes only limitedly.

South Carolina cities and counties collect utility franchise fees or utility privilege taxes based on the principle of charging utilities a fee for use of the public right-of-way. Nationally, cities that use this tax raise about one-third as much revenue from utility taxes as from property taxes. Rates go as high as ten percent or more of utility gross receipts. But high rates are not always popular.

Local governments can impose excise taxes on a variety of other transactions. For example, some cities and counties in Washington state collect a real estate transfer tax with proceeds dedicated to capital projects. Many of these taxes are usually costly to administer and produce only minor amounts of revenue.

TAX OPTIONS—LESS LIKELIHOOD OF ACCEPTANCE

Income

Local income taxes are not as common as local sales taxes. They are used most often in larger cities nationally where they provide a way for cities to tax workers who reside in the suburbs. Cities using an income tax generally rely on it more than on the property tax. However, when single jurisdictions adopt income taxes they may become less attractive to businesses and residents than nearby jurisdictions without income taxes.

SPECIAL ASSESSMENTS—MORE LIKELIHOOD OF ACCEPTANCE

Transportation Development Districts

One concept growing in use is a package of state, local, and private funding for roads. These packages combine the traditional mix of state and local financing of roads with special assessment districts which raise money from those who most directly benefit from road improvements. New Jersey, Pennsylvania, Virginia, and Colorado have laws encouraging the formation of these districts in growth areas.

The districts are formed to provide public-private partnerships to pay for major road and interchange improvements necessitated by growth. For example, in New Jersey transportation development districts may be formed in rapidly growing areas with projected traffic growth of 50 percent or more in five years. Substantial commercial/retail development is required as they pay the bulk of the fees. New Jersey's fees are like impact fees. They are based on the amount of traffic a new development is expected to generate and can pay only for additional capacity. Fees are collected when building permits are issued and must be spent on highway projects within ten years or refunded (New Jersey Transportation Development District Act of 1989). New Jersey developers supported the bill establishing Transportation Development Districts because it clarified the permissible fee structure for them.

SPECIAL ASSESSMENTS—LESS LIKELIHOOD OF ACCEPTANCE

Mello-Roos Community Facility Districts

California local governments have another option, the Mello-Roos Community Facility District, since the passage of enabling legislation in 1982. These districts can be used for many purposes and take many forms.

Mello-Roos districts are formed by cities, counties, special districts, or school districts to provide certain services or levy special taxes to finance public facilities. They may be as small as a subdivision or as large as an entire city. They are frequently formed at the request of developers to finance infrastructure in new developments. Mello-Roos

districts can provide police, fire, recreation, library, and storm water services. They can be used to finance parks, schools, libraries, any other governmental facility, and also the installation of gas, telephone, and electric utility lines. Use of Mello-Roos bonds has risen from one issue of $8.5 million in 1983 to 58 issues totaling $751 million in 1989. Although most often used for non-school purposes, school construction use has been increasing, and in 1989 about one-third of the bond issues were for school buildings.

Unlike regular assessment districts, Mello-Roos districts do not have to be contiguous and the assessments do not have be based on benefits received. They do require a two-thirds vote of the affected residents if the area has twelve or more registered voters. If the district has fewer than twelve registered voters the land owners are the voters.

There is considerable flexibility in establishing the Mello-Roos tax rate and formula. Different rates may apply to residential and commercial properties, new and old residents, developed and undeveloped land. For example, the City of Belmont, California, created the first city-wide Mello-Roos district in 1987 to finance a storm drainage system after a public outcry about a previously proposed system. Both *ad valorem* taxes and special assessment districts were rejected as means of financing the system because they did not meet politically acceptable criteria. With the Mello Roos district, two levels of tax were adopted-a base rate paid by all landowners in the city and a supplemental rate paid by landowners directly benefiting from the system. Different types of land uses were assessed at different rates based on flood-related claims against the city.

USER CHARGES AND FEES—MORE LIKELIHOOD OF ACCEPTANCE

Selling Access Rights

Escondido, California; Houston, Texas; and Upper Merion Township (King of Prussia area), Pennsylvania, have used the sale of access rights to finance sewage treatment plant construction. The charges are like impact fees paid in advance. Land owners and developers may buy guarantees that sewerage treatment will be available for their projects. Those who do not buy access rights may be denied service or will have to pay higher prices for access to the system. This prepayment of costs generates the funds to build the needed treatment facilities. The jurisdictions have different rules about whether the access rights can be sold on the open market or must be sold back to the jurisdiction if no longer wanted.

Toll Roads

Toll roads, once a common form of financing in eastern states, are returning. A toll road is being built in Virginia from Dulles Airport to Leesburg, two are being discussed in Colorado, and the U.S. Department of Transportation is encouraging greater use of this mechanism. Toll roads are another way to charge users directly, but are not always acceptable to a society accustomed to "free ways".

USER CHARGES AND FEES—LESS LIKELIHOOD OF ACCEPTANCE

Congestion Pricing

According to economic theory road users would make more efficient use of roads if

they paid the full cost of road use. Under current pricing policies, a driver who uses roads at peak periods pays only the personal cost of going slower and not the social cost of slowing down everyone else. If drivers were charged for the congestion they cause, some would shift their trips to less costly driving times. Toll roads could readily collect congestion charges by having higher tolls during peak periods. Collecting congestion charges without toll roads is technologically possible but fraught with administrative and political problems.

EXPANDED AND MORE INNOVATIVE USE OF EXISTING REVENUE-RAISING MECHANISMS

Although jurisdictions in South Carolina use special assessments, their use is often restricted to upgrading developed areas where they finance projects such as sewer installations or road improvements. Tacoma, Washington, uses special assessments to help developers finance the required infrastructure for their developments. Developers use special assessments if they can obtain cheaper financing than they can obtain directly.

Special Assessments for Arterial Streets

Another potential use of special assessments is to help finance arterial street improvements necessitated by growth. The city of Bellevue, Washington, did this for 25 years. Theoretically, commercial land owners benefit from street improvements because the value of their property increases. Commercial property owners, however, complained that they received no direct, immediate benefits from the improvements they paid for and were beginning to refuse to form special assessment districts. Bellevue now uses a variety of taxes and fees to finance street improvements, including a 1/2 cent local sales tax dedicated to capital improvements, a wage tax, impact fees, and the city's portions of the county vehicle registration charge and state gas tax.

This case study illustrates that using special assessments for major streets has problems. Creating transportation development districts, which were discussed earlier, may be one way to deal with some of the issues.

Storm Water and Street Utilities

Another concept that is gaining acceptance is the storm water and street utility. Water and sewer departments were the first to be treated as utilities. Utilities are permanent organizations that operate and maintain specific public works and raise revenues from user charges. Utilities insulate public works from the uncertainties of general revenue budgeting, tie costs to benefits received, and sometimes collect fees from tax-exempt properties.

Fort Collins, Colorado, has had a storm water utility since 1981 and a street utility since 1984. Both charge new development a connection fee and all users a monthly use fee along with their water and sewer bills. Storm water charges are based on the amount of runoff expected and the cost of operating the utility in that drainage. Street utility fees are based on the amount of traffic a building generates and its street frontage.

EXTENDING FEES TO NEW DEVELOPMENT

South Carolina's local governments could use a variety of mechanisms to finance the

infrastructure needed due to growth. This section describes a variety of mechanisms which raise funds for infrastructure from new development.

Washington County's Traffic Impact Fee (The Oregon Experience)

In 1986 Washington County adopted a Traffic Impact Fee (TIF) to partially pay for the extra capacity needed on arterials and major collectors because of growth. The fee replaced previous county systems development charges and was collected only in the unincorporated areas of the county. In September 1990 Washington County voters approved a new ordinance providing for the uniform collection of TIF's throughout the county.

The fees charged depend on the type of new development and the number of trips it generates. Rates per weekday trip for each type of use are specified in the ordinance. These rates may increase up to 6 percent per year. The Institute of Traffic Engineers standards are used to determine the number of trips a use generates. For example the current fee for single family residences is $1,350 ($135 times 10.0 average trips) and for business and commercial buildings is $34 times the average number of weekday trips for the type and size of place.

In 1988 road impact fees in the United States ranged from $130 to $4,271 per single family house with a mean of $946 and median of $804. Washington County's TIF is therefore slightly above average. Nonetheless the County estimates that the fee generates only about one-fourth of the revenue needed to add new transportation capacity due to growth.

TIF proceeds are used to find off-site improvements on county and city roads and for transit capacity improvements. TIF money can be used only to add capacity, not to bring roads up to standards. Other funding sources must be used to solve existing needs. All revenue collected within any jurisdiction must be spent within that jurisdiction or on projects which directly benefit that jurisdiction. A base report lists the arterials and major collectors which are eligible for TIF funding and prioritizes projects on these streets within each jurisdiction.

The new TIF involves a high degree of city-county cooperation. Countywide application eliminates inequalities in payments based on jurisdiction, provided cities do not charge additional systems development charges for roads. Funds go to the jurisdiction in which they are collected.

Storm Sewer Utility Fees

The Unified Sewerage Agency of Washington County assumed responsibility for surface water management in the Tualatin River Basin in July 1990 becoming the storm water as well as the sewer utility for that area. They are using service charges and connection fees to finance this function. In FY 95-95 they collected $5,540,000 in surface water service charges and $1,950,000 in surface water connection fees.

Fees for individual properties are $3.00 per Equivalent Service Unit (E.S.U.) per month where one E.S.U. is the average amount of impervious area of a single family home. All other developments, ranging from apartment buildings to an airport, were assigned a number of E.S.U.'s by measuring their impervious area on aerial photos. New development pays a connection fee of $375

per E.S.U. because they are adding to the load that must be served by storm sewers. Adjustments to the connection charge may be made for large developments depending on the drainage provided within the development.

Street Utility Fees

Several cities are now charging street utility fees along with water and sewer bills. Ashland, OR, has had a fee since 1986, Tualatin, OR, adopted one in 1990, and Medford, OR, is currently considering one. Tualatin's fee will raise about $350,000 annually for preventive maintenance of streets and street lighting. Fees are based on the amount of traffic generated by each use using the Institute of Transportation Engineers standards. These standards consider type of use and size of building. Single-family homes pay $1.42 on their monthly utility bill, whereas large traffic generators like fast food restaurants pay $72.73 per 1,000 square foot of space.

CONCLUSION

Revenues presented here represent a menu of potential alternatives to be used to raise revenues for or to finance infrastructure. In the next draft of this report, these revenues will be fit to various categories of infrastructure need to determine their ability to satisfy this need. At this point, the issue of revenue burdens on existing versus future residents and businesses will be addressed.

The discussion of revenues is a prelude to discussions of implementation and issues surrounding implementation, which will be the focus of Report #4.